Lantic Sugar

Annual Report 1966

Atlantic Sugar Refineries Co. Limited

Directors

Brig. Maurice Archer, M.B.E., E.D., *Montreal*

Ralph P. Bell, O.B.E., D.C.L., *Halifax*

R. O. Bull, *Sidney, British Columbia*

J. A. Gairdner, *Toronto*

J. H. Gairdner, *Toronto*

J. S. Gairdner, *Toronto*

Hon. Salter A. Hayden, Q.C., LL.D., *Toronto*

Hon. J. Leonard O'Brien, LL.D., *South Nelson, N.B.*

John D. Park, *Toronto*

W. J. R. Paton, *Montreal*

B. H. Rieger, *Toronto*

Arthur G. Walwyn, *Toronto*

Officers

J. A. Gairdner, *Chairman of the Board*

J. H. Gairdner, *Vice-Chairman of the Board*

W. J. R. Paton, *President and General Manager*

John D. Park, *Assistant to the Chairman* – at Gairdner & Co. 366-6833

Hon. Salter A. Hayden, Q.C., *Vice-President*

A. P. Beaulieu, F.C.I.S., *Vice-President, Finance and Secretary-Treasurer*

G. F. Hayden, Q.C., *Assistant Secretary*

L. E. Labrosse, *Assistant Treasurer*

E. V. Burgess, *Vice-President, Marketing*

J. B. Eldridge, *Vice-President, Production*

251-3711

Atlantic Sugar Refineries Co. Limited

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Financial Highlights

	1966	1965
Operating Profit	$ 7,258,930	$ 8,451,326
Federal and Provincial Income Taxes	1,155,000	2,875,000
Net Earnings	6,150,907	5,444,391
Earnings per Common Share	1.04	.91
Total Dividends Paid	2,940,000	2,400,000
Added to Retained Earnings	3,210,907	3,159,391
Retained in the Business	28,242,839	25,031,932
Capital Expenditures	6,711,460	5,998,601
Funded Debt	14,974,008	15,484,457
Current Assets	20,278,312	30,028,320
Current Liabilities	10,771,457	9,688,621
Working Capital	9,506,855	20,339,699
Ratio of Current Assets to Current Liabilities	1.9 to 1	3.1 to 1

The Chairman's Letter

It is my pleasure to present herewith the Balance Sheet, the Statement of Earnings and the Statement of Source and Application of Funds for the year ended December 31, 1966.

The Statement of Earnings submitted herewith shows net earnings after income taxes and depreciation for the year of $6,150,907. This is the highest in your company's history and is equivalent to $1.04 per share of common stock outstanding. The increase in net earnings for the year 1966 over last year has been approximately 13%.

These earnings have been achieved despite the rapid decline in raw sugar prices, which in December were the lowest in forty years. Raw sugar today is quoted on the world market at approximately one-half the cost of production. Inventory adjustments throughout the year to keep our raw sugar inventory adjusted to the dropping sugar prices, were approximately $556,000. However, we now have sizeable amounts of sugar purchased firm for delivery at slightly below today's world prices, so we should be in an excellent position when the price of sugar stabilizes at or near its cost of production. Serious attempts are now being made to reach agreement on an international sugar policy amongst the major sugar producers of the world. This should add stability to the market.

WORKING CAPITAL—The net working capital at the year end decreased to $9,506,855 as compared to $20,339,699 at the end of 1965. This is a temporary situation brought about by the purchase of and payment for a number of fishing trawlers and tuna vessels during the month of December 1966. Financing is now being arranged for these vessels and the working capital should be increased by approximately $7 million in 1967 as a result of this financing.

DIVIDEND POLICY—Our present dividend rate is 50¢ per common share, payable 12½¢ per quarter. It has been our policy for some years to pay annually between 50 and 60% of earnings. This year's dividend rate will receive consideration in the near future.

EXPANSION AND DIVERSIFICATION—The senior officers of the company have continued to devote considerable study to the program of diversification. The benefits from this program should start accruing to your company during this current year and would be in full effect during the year 1968.

TUNA FISHING OPERATIONS—A new company called Canadian Tuna Company (1965) Limited was organized to process and can tuna. Two new tuna canning plants are being constructed on the St. Croix River, which divides the Province of New Brunswick and the State of Maine. The combined output of these two plants will be approximately 1,000,000

cases per year. The tuna will be sold in Canada under the label "Chicken of the Sea" and "Poulet de la Mer".

The Canadian plant is being constructed in a designated area. Under present income tax laws, plants constructed in a designated area are exempt from income tax for the first three years of operation.

Atlantic Sugar has placed orders for five large tuna fishing vessels at a total cost of $12,261,000. These fishing vessels, the largest, most modern of their type in North America, are capable of carrying provisions for voyages of up to one hundred days and will fish principally in the Pacific Ocean adjacent to the west coast of South America. Each vessel is capable of quick freezing and storing approximately 900 tons of tuna per voyage.

The Canadian Tuna canning plant in New Brunswick will be ready for operation in March, 1967. Two of the tuna vessels were scheduled for delivery in December, 1966 but the shipbuilder has not maintained contractual delivery dates. Raw frozen tuna has been purchased for the initial start up in March. All five of the tuna vessels are now scheduled for delivery during this current year commencing in March, 1967.

The minority interests in Canadian Tuna have recently been purchased so that now your company owns 100% of this company.

GROUND FISH OPERATION (NORTHWEST ATLANTIC)—A new company called Atlantic Fish Processors Co. Ltd. (100% owned) was organized to buy and process cod, halibut, haddock and ocean perch. The Province of Newfoundland through a Crown Corporation, Mooring Cove Building Corporation, is building to our specification a modern fish processing plant, having a capacity of 60 million pounds per year at Marystown, Newfoundland. Our agreement provides for the leasing of this plant on terms that are attractive to your company. We also have a commitment from the Newfoundland Government whereby a second plant can be built under similar terms.

The plant is being constructed in an area designated by the Canadian Government as a depressed area. Under present income tax laws, new companies established in such designated areas are exempt from income tax for the first three years of operation.

Atlantic Sugar has purchased ten modern stern trawler fishing vessels at a total cost of $12,217,000. The first two fishing vessels have been delivered and the balance will be completed and delivered during this current year. The fishing plant in Marystown will be complete and placed in operation in March of 1967.

ACADIA PULP AND PAPER LIMITED—Your company purchased 51% of South Nelson Forest Products Corporation on February 4, 1966. This is a company located at South Nelson, New Brunswick, which produces groundwood pulp sold principally in Europe. This groundwood pulp is used by paper companies in the manufacture of newsprint and quality paper. The groundwood mill had been shut down because the mill could not produce pulp of a proper specification. As a result of the financing provided by your company, the defective equipment was replaced with proper equipment and the plant started up. The mill was operated at a reduced rate until tests were completed, showing that the groundwood pulp was of high quality. The last of the new equipment is now being installed and the mill should soon be operating at a design capacity of 150,000 tons per year.

In line with the change in ownership, the name of this company was changed to Acadia Pulp and Paper Limited on June 1, 1966.

Acadia Pulp and Paper holds Forest Management licenses from the New Brunswick Government sufficient for an annual cutting rate of 230,000 cords per year which is sufficient to provide for current needs and future requirements mentioned in the next paragraph. The management licenses, together with lands owned by the company, cover over 1,200 square miles of forest lands. The management licenses are for a period of 50 years and are renewable. Engineering reports show that this timber is located on land that is accessible and can be cut in an economical manner. The mill is located on deep water at the mouth of the Miramichi River, so that shipments can be made by water to Europe and the Atlantic seaboard.

Our ultimate goal is the manufacture of newsprint in New Brunswick. Our plans for the newsprint mill have been delayed due to the over-expansion in the newsprint industry during the years of 1965 and 1966. In conjunction with Parsons & Whittemore Incorporated, we have engaged H. A. Simons (International) Ltd. of Vancouver to prepare a new feasibility report regarding the installation of the paper mill. This feasibility report is now in hand and confirmed the favourable economics of construction of a new paper mill. We are now negotiating regarding the financing of the new mill and we would expect a further announcement to be made in this regard in the near future. Our goal is to start construction of the mill during 1967.

OUTLOOK FOR THE FUTURE—Our sugar refinery in Saint John, New Brunswick is, in our opinion, the most efficient in Canada. We expect a normal increase in our volume of business in the coming year. We are endeavouring to lower the unit cost of production through modernization of our plant to offset the rail differential on shipments to Quebec and Ontario. Sugar prices today are abnormally low. We have a large inventory which has been written down to reflect these low prices. We would expect any change in sugar prices to be upward and as a result, we look forward to increased earnings from our sugar operations for the coming year.

THE FISHING INDUSTRY—The world is becoming increasingly aware of the importance of the sea as a source of high protein food which the world so urgently needs. We have constructed the most modern fishing vessels and processing plants in the world. We have been fortunate to obtain experienced and dynamic management personnel for this operation. We expect to receive a substantial contribution to our earnings from the fishing subsidiaries when in full operation.

GENERAL OUTLOOK—We recognize the risk involved in long range projection for the future when leading economists cannot agree whether we are facing inflation or recession. Nevertheless, we feel that our shareholders should be fully informed of what your management expects from the future. Our diversification program has been directed towards dampening the cycles and we believe will be stable under most circumstances. We should be less affected than most industries by adverse business cycles. The population of the world is rising rapidly and at the same time, the standard of living is increasing. This creates a steady and ever increasing demand for our products. We anticipate that 1967 will be another banner year under favourable circumstances. Earnings could increase as much as 20¢ per share.

YOUR COMPANY—Your company has had a remarkable history. Incorporated in 1914, it went through a long period of slow growth and development until approximately 10 years ago, when we decided to modernize our facilities at a cost of approximately $14 million, most of which was paid for out of retained earnings. The results were astounding. The earnings per common share increased 1000% in this 10 years. Earnings from our sugar operation will continue to increase, but at a reduced rate. However, due to our diversification program, we are now entering a new era. In my opinion, our earning power over the years ahead should show fully as dynamic a growth as it has over the last 10 years, so that, in addition to the stability of present earnings, we are now in a growth situation.

We express again in respect of the year 1966 to our operating personnel our appreciation of their continued loyal and efficient services.

Yours sincerely,

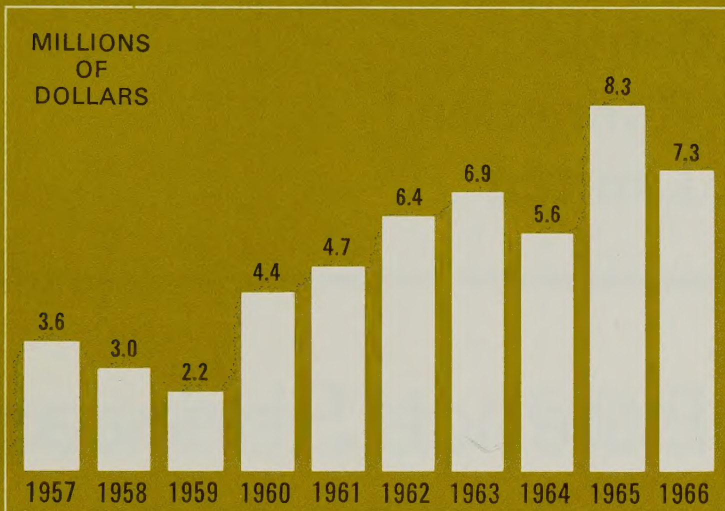
J. A. Gairdner

Chairman of the Board

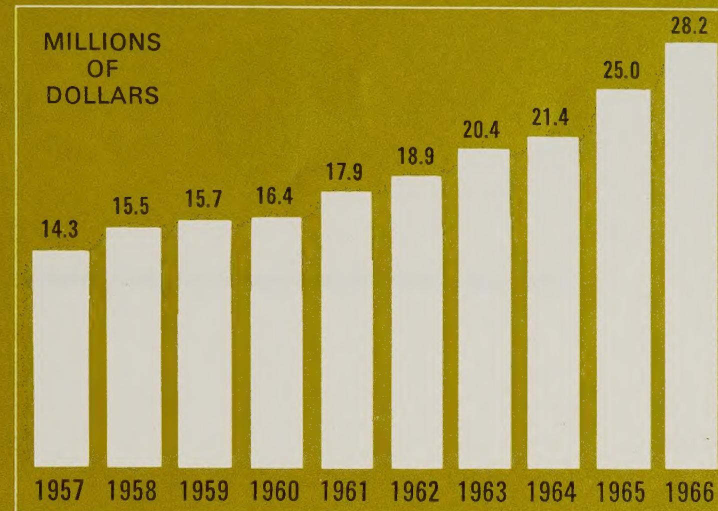
Comparative Key Data for the Past Ten Years

Earnings Before Income Taxes

See Note 1

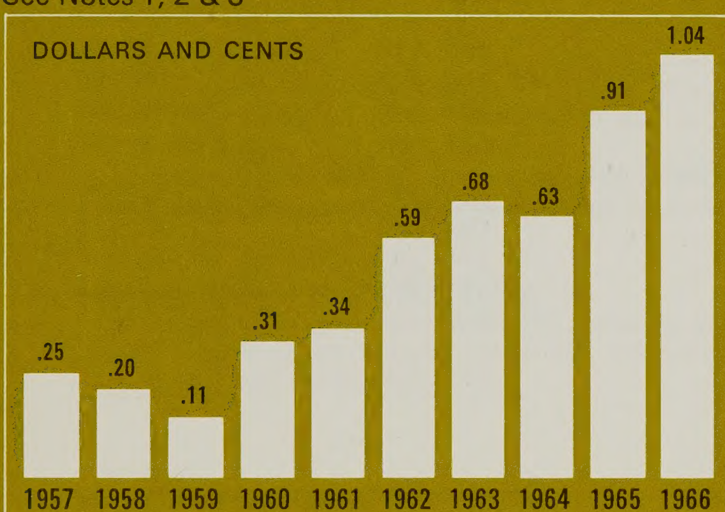


Retained in the Business

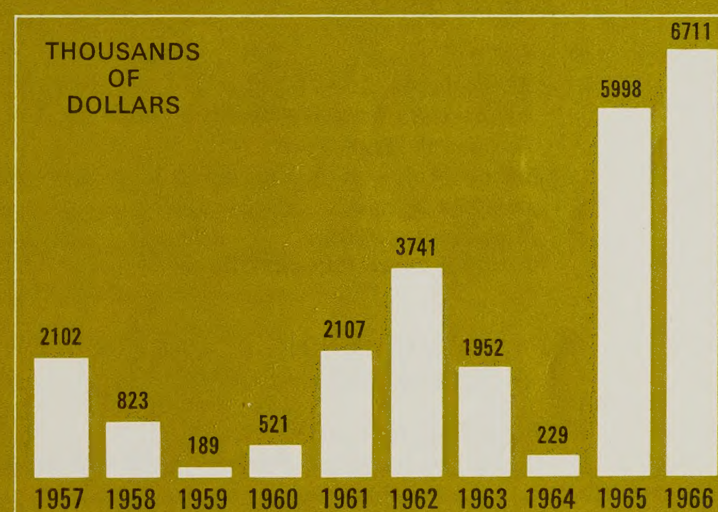


Earnings Per Common Share

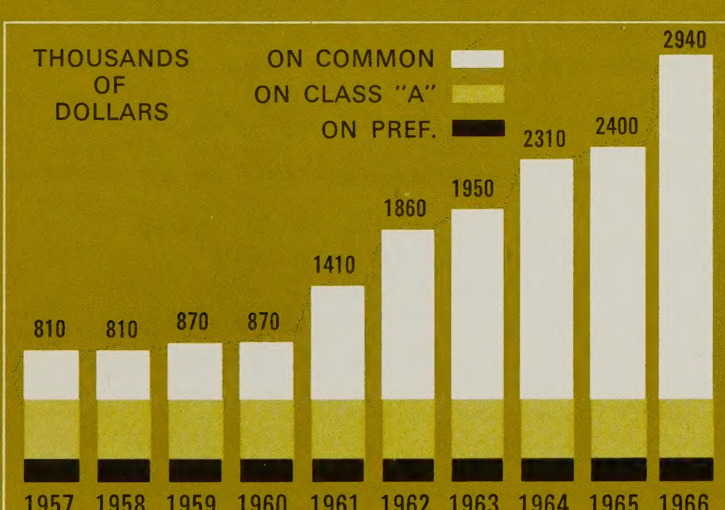
See Notes 1, 2 & 3



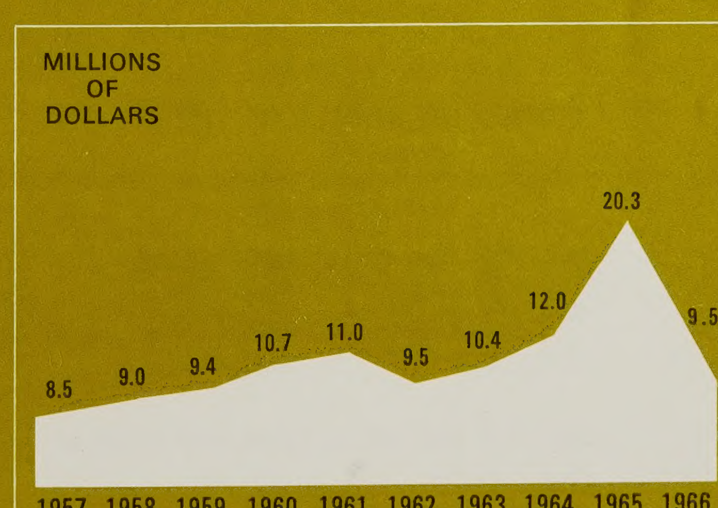
Capital Expenditures



Total Dividends Paid



Working Capital



Notes

1. Adjustment made in 1962 and 1963 for excess depreciation taken.
2. Earnings per common share are after adjusting income taxes to reflect flow-through basis.
3. Adjusted for stock-splits.

Atlantic Sugar Refineries Co. Limited

Balance Sheet as at

ASSETS

	1966	1965
CURRENT ASSETS	$	$
Cash	102,174	98,196
Marketable investments—at cost (note 1)	11,396,261	16,576,886
Short-term notes receivable (note 2)	2,274,586	7,674,586
Accounts receivable	2,685,485	2,218,753
Inventories—at lower of cost or net realizable value (note 3)	3,218,972	3,372,777
Prepaid expenses	124,600	87,122
Income taxes recoverable	476,234	—
	20,278,312	30,028,320
INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES (note 4)	7,619,207	—
FIXED ASSETS (note 5)		
Land, buildings, wharves, plant and equipment, furniture and fixtures	24,697,228	24,343,640
Ships	12,475,995	6,118,123
	37,173,223	30,461,763
Accumulated depreciation	7,782,438	6,985,073
	29,390,785	23,476,690
	57,288,304	53,505,010

SIGNED ON BEHALF OF THE BOARD

J. H. GAIRDNER, *Director*

SALTER A. HAYDEN, *Director*

ecember 31, 1966

LIABILITIES

	1966	1965
CURRENT LIABILITIES	$	$
Bank advances	4,323,970	279,273
Short-term notes payable	4,057,242	5,464,936
Accounts payable and accrued liabilities	1,625,245	1,469,697
Income taxes (note 6)	—	1,844,715
Dividend on Class "A" shares, payable January 3	90,000	90,000
Dividend on common shares, payable January 3	675,000	540,000
	10,771,457	9,688,621
FIRST MORTGAGE BONDS (note 7)		
4% sinking fund bonds series "A" maturing in 1974	4,580,500	4,769,500
5¼% sinking fund bonds series "B" maturing in 1985 (U.S. $9,700,000)	10,393,508	10,714,957
	14,974,008	15,484,457
	25,745,465	25,173,078

SHAREHOLDERS' EQUITY

	1966	1965
CAPITAL STOCK		
Authorized—		
75,000 5% cumulative redeemable preference shares of $100 par value (redeemable at $105)		
600,000 Class "A" $1.20 cumulative preference shares of no par value		
6,600,000 common shares of no par value (note 8)		
Issued and fully paid—		
30,000 5% preference shares fully paid	3,000,000	3,000,000
300,000 Class "A" shares fully paid	200,000	200,000
5,400,000 common shares (note 8)	100,000	100,000
CONTRIBUTED SURPLUS	735,000	735,000
EXCESS OF APPRAISED VALUE OF FIXED ASSETS OVER COST	460,563	460,563
RESERVE FOR INVESTMENTS AND CONTINGENCIES	500,000	500,000
RETAINED EARNINGS — including capital gains of $3,303,641 ($3,029,196 in 1965)	26,547,276	23,336,369
	31,542,839	28,331,932
	57,288,304	53,505,010

Statement of Earnings

for the Year Ended December 31, 1966

	1966	1965
	$	$
Operating profit before the following items	7,258,930	8,451,326
Income from investments—		
Subsidiary companies	312,929	—
Other	828,493	753,745
Miscellaneous income	166,695	162,990
Profit on redemption of bonds	26,841	21,288
	8,593,888	9,389,349
Provision for depreciation	797,365	778,015
Bond interest	745,561	433,959
Remuneration of directors as such	19,500	18,900
	1,562,426	1,230,874
	7,031,462	8,158,475
Provision for income taxes	1,155,000	2,875,000
Net profit for the year	5,876,462	5,283,475
Gain on sale of investments	214,445	122,236
Gain on sale of land	60,000	38,680
	274,445	160,916
Net earnings for the year	6,150,907	5,444,391

Statement of Retained Earnings

for the Year Ended December 31, 1966

BALANCE—BEGINNING OF YEAR	23,336,369	20,176,978
Net earnings for the year	6,150,907	5,444,391
Transfer of deferred income taxes	—	615,000
	29,487,276	26,236,369
Dividends—		
5% preferred shares	150,000	150,000
Class "A" shares	360,000	360,000
Common shares	2,430,000	1,890,000
	2,940,000	2,400,000
Transfer to reserve for investments and contingencies	—	500,000
	2,940,000	2,900,000
BALANCE—END OF YEAR	26,547,276	23,336,369

Statement of Source and Application of Funds

for the Year Ended December 31, 1966

SOURCE OF FUNDS		
Net earnings for the year	6,150,907	5,444,391
Provision for depreciation	797,365	778,015
Net proceeds of bond issue	—	10,714,957
	6,948,272	16,937,363
APPLICATION OF FUNDS		
Net additions to fixed assets	6,711,460	5,998,601
Dividends	2,940,000	2,400,000
Bonds redeemed	510,449	200,000
Investments in and advances to subsidiaries	7,619,207	—
	17,781,116	8,598,601
INCREASE (DECREASE) IN WORKING CAPITAL	(10,832,844)	8,338,762
WORKING CAPITAL—BEGINNING OF YEAR	20,339,699	12,000,937
Increase (decrease) in working capital	(10,832,844)	8,338,762
WORKING CAPITAL—END OF YEAR	9,506,855	20,339,699

Notes to Financial Statements

for the Year Ended December 31, 1966

1. MARKETABLE INVESTMENTS—The market value of the investments was $10,327,000 as at December 31, 1966 and was $10,891,000 as at February 10, 1967.
2. SHORT-TERM NOTES—This includes $1,300,000 face value of Atlantic Acceptance Corporation Limited notes at a cost of $1,274,586. It is the opinion of the directors that the reserve for investments and contingencies is adequate to cover the anticipated loss on realization of these notes.
3. INVENTORIES—In prior years, it was the practice of the company to value its inventories at the lower of cost or market. As of December 31, 1966, inventories were not reduced from cost to market to the extent that such inventories were protected by sales contracts for future delivery.
4. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES—These are composed of the following:

	Percentage of ownership	Shares at cost	Bonds and notes at cost	Advances	Total
Acadia Pulp and Paper Ltd.	51%	1	5,000,000	—	5,000,001
Atlantic Fish Processors Co. Ltd.	100%	120	—	405,872	405,992
Canadian Tuna Company (1965) Limited	100%	190,000	—	2,023,214	2,213,214
		$190,121	5,000,000	2,429,086	7,619,207

The accounts of the subsidiaries have not been consolidated with those of the parent because they are still in process of organization and construction.

The investment in Acadia Pulp and Paper Ltd. was acquired February 4, 1966. At this time the company was not in operation and a loss was recorded for the year ended March 31, 1966. The portion attributable to the parent since acquisition (under provisions of Section 89 of The Corporations Act of Ontario) would be approximately $147,000.

The Auditors' Report dated June 27, 1966, to the Shareholders of Acadia Pulp and Paper Ltd. for the year ended March 31, 1966 includes the following comments as qualifications:

"The following items referred to in the Explanatory Notes to the Financial Statements, which are material in amount, have not been resolved at this date:

1. A legal action taken by the Company in the amount of $5,211,402.00 against certain engineers and suppliers.
2. Establishment of a depreciation policy.
3. Application of the Take or Pay Contract referred to in Explanatory Note 6."

Note 6 refers to the fact that the depreciation policy was still to be established by the Directors of the Company and that the result of the legal action instituted against the engineers and suppliers was still outstanding, which made it impossible or impractical, under the circumstances, to compute any amount which the purchasers, Cartiere del Timavo S.p.A. and Cartiere di Arbatax S.p.A., might have had to pay under the purchase agreement which those two companies have with Acadia Pulp and Paper Ltd.

5. FIXED ASSETS—Fixed assets are carried at values as appraised by Canadian Appraisal Company Limited as of October 7, 1939 in respect of the Dartmouth refinery and by Stone and Webster Engineering Corporation as at September 30, 1954 in respect of the Saint John refinery with subsequent additions at cost less retirements.
6. INCOME TAXES—In connection with the diversification programme commenced in 1965 the company expended an amount of approximately $6,358,000 in 1966 on the acquisition of ships. Provision for income taxes for the year was based upon a claim of maximum depreciation allowances under income tax regulations on these ships and on refinery assets. Such claim exceeded the depreciation provided in the accounts by $4,267,000 with a resultant reduction of $2,219,000 in income taxes otherwise payable for the year. The accumulated excess of depreciation claimed over that provided in the accounts amounted to $7,914,000 and the accumulated tax reductions to $4,009,000 over the years 1962 to 1966 inclusive.
7. FIRST MORTGAGE BONDS—Sinking fund requirements for 1967 amount to $180,000 in respect of the Series "A" bonds, and $321,449 in respect of the Series "B" bonds.
8. CAPITAL STOCK—During the year the issued common shares were subdivided three for one into 5,400,000 shares, and the authorized shares were increased to 6,600,000.

   In addition to 5,400,000 common shares issued and fully paid, 60,000 authorized common shares were issued and sold to an officer of the company on April 21, 1966 at $9.33⅓ each, payable not later than April 21, 1971. Such shares are held in trust and do not qualify for dividends until fully paid.
9. CONTINGENT LIABILITIES—The company is contingently liable for the following commitments made to or to be made by its subsidiaries:
   (1) Long-term leases of fish processing plants being constructed at a total estimated cost of $9,500,000. On completion, the subsidiaries will lease the plants at annual rentals sufficient to amortize the cost over the terms of the leases.
   (2) The acquisition of a fish processing plant estimated to cost $4,300,000.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Atlantic Sugar Refineries Co. Limited as at December 31, 1966 and the statements of earnings, retained earnings and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of earnings, retained earnings and source and application of funds, when read in conjunction with the notes thereto, present fairly the financial position of the company as at December 31, 1966 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants

February 10, 1967